



Derivatives Drag Earnings

Nadec announced solid 1Q19 topline growth of +12% Y/Y while improving gross margins, vindicating management strategy of maintaining fresh dairy prices. Loss on financial derivatives of SAR 22 mln, drove quarterly loss of SAR 4 mln, inline with our forecast, masking an otherwise strong performance. We are gaining increasing confidence in substantial efficiency benefits post-ASD integration where the combined entity will be the #2 dairy producer. Although no update provided on the merger, we are expecting the transaction to close this year. Current share price weakness offers attractive entry point, reflecting 9.6x 2019E EV/EBITDA. Reiterate Buy and SAR 40 target price. Nadec remains one of our top picks in the mid-cap space.

Strong revenue growth propelled by laban and juice

Nadec announced SAR 530 mln revenues (+12% Y/Y and +9% Q/Q), lifted by fresh laban and juice sales. Dairy and food segment gained +15% Y/Y, countering the -22% Y/Y decline in agri segment. Note that Nadec's agri activities are winding down with the Company taking a SAR 53 mln charge in the prior quarter. Upside is that associated depreciation expense is also declining. We are encouraged by solid topline performance indicating Nadec's success in gaining market share. Overall, the F&B market is still stagnant to declining in KSA given expat outflow, albeit at a slowing pace.

Margins improve on rising topline

Operational efficiency was cited as a contributing factor behind margin improvement (gross margin 38% vs 34% in 1Q18), however higher revenues were the main driver, in our view. This also previews potential efficiencies with the integration of ASD where the combined entity will be #2 dairy producer. No update provided on the progress of ASD acquisition, however we are expecting the all-share transaction to close this year.

Derivative loss hurts income

Finance expense was higher, reflecting rising rates versus year ago period. However, SAR 22 mln charge on derivatives (callable inverse rate floater) was the main contributor to quarterly loss of SAR 4 mln, inline with our forecast. Barring this exceptional item, Nadec's results reaffirm pricing strategy and consequent market share gain. Notably, the Company has managed to sustain gross margin and created headroom to absorb higher expat fees.

NADEC (SAR mln)	1Q19	1Q19E	1Q18	Y/Y Chg	4Q18	Q/Q Chg	Variance
Revenues	530	481	474	12%	488	8.8%	10%
Gross profit	203	165	163	25%	179	13.6%	24%
Gross margin	38.3%	34.2%	34.3%		36.7%		
Operating profit	38	19	12	222%	(32)	n.m.	95%
Operating margin	7.1%	4.0%	2.5%		n.m.		
Net income	(4)	(4)	(5)	n.m.	(48)	n.m.	-13%
Net margin	n.m.	n.m.	n.m.		n.m.		
EPS (SAR)	(0.04)	(0.05)	(0.06)	n.m.	(0.57)	n.m.	-13%

SAR 40

12-Month Target price

Buy

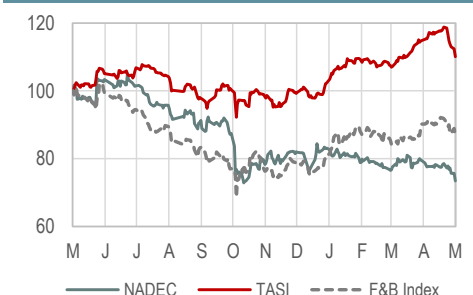
Recommendation

Stock Details		
Last Close Price	SAR	25.60
Upside to target	%	56.3
Market Capitalization	SAR mln	2,168
Shares Outstanding	mln	84.7
52-Week High	SAR	38.20
52-Week Low	SAR	23.80
Price Change (YTD)	%	(13.1)
3-Mth ADTV	thd	209
EBITDA 2019E	SAR mln	413
Reuters / Bloomberg	6010.SE	NADEC AB

SAR mln	2018	2019E	2020E
Revenues	2,096	2,121	2,439
Gross Margin	37%	36%	35%
EBIT	72	118	117
Operating Margin	3.4%	5.6%	4.8%
Net Income	1.7	7.6	9.5
Net Margin	0.1%	0.4%	0.4%
EPS (SAR)	0.02	0.09	0.11
DPS (SAR)	-	-	-

Price Multiples			
	2018	2019E	2020E
P / E	n.m.	n.m.	n.m.
EV / EBITDA	11.5x	9.6x	7.3x
P / S	1.0x	1.0x	0.9x
P / B	1.5x	0.8x	0.8x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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